



**THE HIGHLANDS AND ISLANDS
TRANSPORT PARTNERSHIP**

STATEMENT OF ACCOUNTS

2006/07

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

CONTENTS

EXPLANATORY FOREWORD.....	3
REPORT BY THE TREASURER TO THE PARTNERSHIP.....	4
STATEMENT OF ACCOUNTING POLICIES	7
INCOME AND EXPENDITURE ACCOUNT.....	9
STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE.....	9
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	10
BALANCE SHEET.....	11
CASH FLOW STATEMENT.....	12
NOTES TO THE ACCOUNTS	13
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.....	20
STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL.....	21
INDEPENDENT AUDITOR'S REPORT.....	23

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP

Statement of Accounts for the year ended 31 March 2007

EXPLANATORY FOREWORD

The accounts of the Partnership for the year ended 31 March 2007 provide an assessment of the financial performance of the Partnership. The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP). The accounts also comply with the requirements of the Best Value Accounting Code of Practice (BVACOP) issued by CIPFA.

The accounts, which follow, comprise:

- Statement of Accounting Policies which explains the policies adopted in compiling the accounts;
- Income and Expenditure Account which reports the net cost of the service and the funding from each constituent authority;
- Statement of the movement on Revenue Reserves;
- Statement of Total Recognised Gains and Losses which shows the movement in the Pensions Reserve;
- Balance Sheet which details the assets and liabilities of the Partnership as at 31 March 2007 and how these are financed;
- Cash Flow Statement which summarises the inflows and outflows of cash;
- Statement of Responsibilities for the Statement of Accounts which explains the respective responsibilities of the Partnership and the Treasurer; and
- Statement on the System of Internal Financial Control which sets out the framework within which financial control is managed and reviewed, and the main components of the system, including the arrangements for internal audit.

In addition, the Report by the Treasurer to the Partnership provides a brief explanation of the financial aspects of the Partnership's activities and draws attention to the main features of the Partnership's financing.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

REPORT BY THE TREASURER TO THE PARTNERSHIP

Introduction

The Highlands and Islands Transport Partnership (HITRANS) was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005, effective 5 December 2005. The power granted to the new statutory body came into force on 1 April 2006.

The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport Scotland Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other Partnerships. These Strategies must take account of future needs and set priorities for transport development and improvement.

The Partnership comprises The Highland Council, Moray Council, Comhairle Nan Eilean Siar, Orkney Islands Council and Argyll & Bute Council (excluding Helensburgh and Lomond and Isle of Arran).

The Order states the membership will be made up from one Member from each constituent Local Authority, and two or three Members from external organisations. The Members from external organisations are named individuals appointed under the Nolan Rules and the Minister of Transport is responsible for these appointments.

Voting is weighted with Highland Council having three votes, Moray Council two and the remaining Councils one vote each. External Members are entitled to vote on such matters as the Partnership determines appropriate but not on financial matters.

Operational control of the Partnership is the responsibility of the Chief Executive who receives financial and computing support from The Highland Council and administrative support from Comhairle Nan Eilean Siar. A consultant was appointed to act as the Chief Executive for the first financial year. A full-time appointment was made in April 2007.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

Revenue Budget Performance

The Partnership's financial results for the year, compared against budget are as shown below. This presentation differs from that shown in the Income and Expenditure Account on page 9 which is set out in accordance with the Best Value Accounting Code of Practice (BVACOP).

**Budget Performance Statement
for the year ended 31 March 2007**

	2006/07	
	Budget	Actual
	£000	£000
Staff costs	90	53
Property costs	25	21
Transport costs	26	42
Supplies and services	562	600
Third party payments	4,660	4,669
Support services	20	45
Gross expenditure	5,383	5,430
Government grants	(5,120)	(5,115)
Other income	(63)	(107)
Interest on revenue balances	(0)	(8)
Gross income	(5,183)	(5,230)
Net expenditure	200	200

The net budgeted expenditure of the Partnership in 2006/07 was £0.2m. The actual expenditure met by the constituent authorities is £0.2m. Overall the budget balanced for the year.

The net expenditure of the Partnership is allocated between the constituent authorities on the basis of the funding previously given to the unofficial HITRANS grouping of Local Authorities uplifted by £0.054m distributed pro rata. For 2006/07 the net expenditure has been allocated as follows:

Constituent Authority	2006/07	
	£000	% share
The Highland Council	63	31.5
Moray Council	45	22.5
Argyll and Bute Council	37	18.5
Comhairle Nan Eilean Siar	28	14.0
Orkney Islands Council	27	13.5
Total	200	100.00

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

Financial Reporting Standard 17 (FRS 17) “Retirement Benefits”

In accordance with CIPFA/LASAAC guidance, FRS 17 has been fully adopted in preparing the accounts of the Partnership. The standard prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

Employees are eligible to join the Local Government Pension Scheme (LGPS), administered by the Highland Council. Note 8 to the Accounts details the income and expenditure charged to the Income and Expenditure Account under FRS 17 in respect of the Local Government Scheme, based upon estimates provided by the Actuary to the Scheme.

Note 12 to the Accounts shows that the Partnership has a net pension liability of £0.019m as at 31 March 2007 due to the accrual of pension liabilities in accordance with FRS 17.

A going concern basis of accounting has been adopted in the preparation of the financial statements as future actuarial valuations of the pension scheme will consider the appropriate employer’s rate to meet the commitments of the Scheme. The constituent authorities of the Partnership are required to fund the liabilities of the Partnership as they fall due.

Acknowledgement

I conclude my report by thanking the staff of my service for their support during the year and my colleagues in other services and the Highlands and Islands Transport Partnership for their continued co-operation.

A Geddes CPFA
Treasurer
31 August 2007

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared on an historic cost basis and as far as practicable, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom: Statement of Recommended Practice (The SORP). The accounts disclose the corporate and democratic core costs and non distributed costs, as required by the Best Value Accounting Code of Practice (BVACOP).

2. Revenue and Capital Transactions

All revenue and capital transactions have been recorded on an accruals basis. This includes employee costs, which are charged to the period in which employees worked and supplies and services, which are accounted for in the period in which they are consumed or received.

3. Leases

Rental repayments under operating leases have been charged to revenue on a straight-line basis over the term of the lease. The Partnership does not have any finance leases.

4. Overheads

The costs of the directly employed administrative and professional staff are included within "Staff Costs" and "Corporate and Democratic Core". The charges made in relation to support services provided by the Highland Council are based on actual work undertaken and are included within "Supplies and Services".

5. Debtors and Creditors

Debtors include all material amounts due to the Partnership at 31 March 2007. Creditors include all material sums due by the Partnership at 31 March 2007 including salaries and wages earned but unpaid at that date and any requisition balances due to the constituent authorities.

6. Highland Council Loans Fund

The Highland Council Loans Fund provides all the day to day banking requirements of the Partnership.

7. Comparative Figures

As this is the Partnership's first financial year there are no previous year comparative figures applicable.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

8. Pensions

In accordance with the SORP, Financial Reporting Standard 17 (FRS17) has been fully implemented in preparing the statement of accounts. FRS17 requires that the financial statements reflect at fair value the assets and liabilities underlying the employer's obligations relating to retirement benefits and that the true cost of these obligations is recognised.

The Partnership participates in the Local Government Pension Scheme (LGPS) administered by the Highland Council.

The Actuary to the Highland Council Pension Scheme was commissioned by the Transport Partnership to undertake an assessment of the cost, income, assets and liabilities of the Fund attributable to the Partnership as at 31 March 2007. The Actuary's assessment of the true cost of retirement benefits earned by employees during the year has been charged in the income and expenditure account and the pension assets and liabilities attributable to the Partnership are reflected within the balance sheet. The pension liability is reflected in the Pensions Reserve.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2007

	2006/07		
	Gross expenditure £000	Gross income £000	Net expenditure £000
Direct cost of service provision			
Staff costs	44	22	22
Property costs	21	10	11
Supplies and services costs	639	493	146
Transport and plant expenses	42	21	21
Third party payments	4,669	4,669	0
	<u>5,415</u>	<u>5,215</u>	200
Corporate and democratic core	15	7	8
	<u>5,430</u>	<u>5,222</u>	208
Interest on revenue balances			(8)
Pension interest costs and expected return on pensions assets			0
Net operating expenditure			200
Requisitions			(200)
Surplus/(Deficit) for the year			0

STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

For the year ended 31 March 2007

	2007
	£000
Surplus/(deficit) for year	-
General Fund Balance as at 1 April 2006	-
General Fund Balance as at 31 March 2007	-

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2007

	2007
	£000
Surplus/(deficit) for year	-
Actuarial and losses on pension fund assets and liabilities	1
Total recognised gains and losses for the year	1

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

BALANCE SHEET

As at 31 March 2007

	31/03/07	
	£000	£000
Current assets		
Sundry debtors	654	
Temporary advance with Loans Fund	<u>0</u>	
Total Assets		654
 Current liabilities		
Borrowing repayable in less than 1 year		
Highland Council Loans Fund	(255)	
Sundry creditors: General	(399)	
Constituent Authorities	<u>0</u>	
		(654)
 Total assets less current liabilities		-
 Net pensions liability		(19)
 Total assets less liabilities		(19)
 Financed by:		
 Pensions reserve		<u>(19)</u>
Total net worth		<u><u>(19)</u></u>

A Geddes CPFA
Treasurer
31 August 2007

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

CASH FLOW STATEMENT
For the year ended 31 March 2007

	2006/07	
	£000	£000
REVENUE ACTIVITIES		
Cash outflows		
Cash paid to and on behalf of employees	(53)	
Other operating cash payments	<u>(5,539)</u>	
		(5,592)
Cash inflows		
Revenue grants	560	
Contributing Authorities	200	
Other operating cash receipts	113	
Other Government Grants	<u>4,456</u>	
		5,329
Net cash outflow from revenue activities		<u>(263)</u>
SERVICING OF FINANCE		
Cash inflows		
Interest received	<u>8</u>	
Net cash inflow from servicing of finance		8
Net decrease in cash		<u><u>(255)</u></u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

NOTES TO THE ACCOUNTS

1. Analysis of employees earning over £50,000

No employee received remuneration in excess of £50,000.

2. Members Allowances

The Partnership consists of eight members comprising one each from Highland Council, Moray Council, Comhairle Nan Eilean Siar, Orkney Islands Council, Argyll and Bute Council and three external individuals.

During the year the Partnership paid a total of £6,177 to members for travel and subsistence.

3. Publicity

Section 5 of the Local Government Act 1986 requires the Partnership to disclose an analysis of expenditure on publicity. The expenditure was as follows:

	2006/07
	£
Recruitment advertising	8,876
General advertising	5,514
Total	14,390

4. Leases

The Partnership made the following rental payments in respect of leased property during 2006/07:

	2006/07	Lease ends
	£	
Inverness Airport	9,375	30/06/2009
	9,375	

Undischarged obligations as at 31 March 2007 amount to £28,125.

5. Corporate and Democratic Core

The BVACOP defines Corporate and Democratic Core costs as follows, and states that these costs should be excluded from the accounts of individual services

- The Corporate and Democratic Core comprises two divisions of service: Democratic Representation and Management (DRM) and Corporate Management (CM).
- DRM concerns corporate policy making and all other member based activities. CM concerns those activities that relate to the general running of the service.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

The costs shown as Corporate and Democratic Core in the Revenue Account are as follows;

	2006/07
	£000
Democratic Representation and Management Costs	2
Corporate Management Costs	<u>6</u>
	<u><u>8</u></u>

6. Non Distributed Costs

The BVACOP defines Non Distributable Costs as follows, and states that these costs should be excluded from the accounts of individual services.

- The whole amount of any past service contribution to meet a pension deficit, however arising
- The whole amount of any reduction in contribution to apply a pension fund surplus.
- Charges (however calculated) for added years and early retirement.
- The costs associated with unused shares of IT facilities.
- The costs of shares of other long-term unused but unrealised assets.

There were no non distributed costs in 2006-07.

7. Pension Costs

Financial Reporting Standard 17 “Retirement Benefits” (FRS17) prescribes how pension costs and liabilities are to be disclosed in the financial statements. The standard requires employing organisations to account for retirement benefits in the period in which they commit to paying them, even if the actual payment of these benefits will be many years in the future.

Employees of the Partnership are admitted to the Highland Council Pension Fund. Under pension regulations, employers’ contributions are set to meet 100% of the overall liabilities of the Fund. The contributions paid by the Partnership into the Highland Council Pension Fund in 2006/07 represent 16.2% of total pensionable pay.

In accordance with SORP guidance on the application of FRS17, the Income and Expenditure Account recognises the true economic cost of retirement benefits earned by employees in 2006/07 irrespective of when benefits are due to be paid. These costs are based upon an assessment by the Fund’s Actuary of the share of the Fund Assets and Liabilities attributable to the Transport Partnership at 31 March 2007.

The following table summarises the entries reflected within the Revenue Account in respect of accounting for pension costs under FRS 17.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

Local Government Pension Scheme

	2006/07	
	£000	£000
Employer pension contributions		6
Less FRS17 charges		
Current service costs	(6)	
Interest costs	(2)	
Expected return on assets	<u>2</u>	
Contribution (from)/to pension reserve		<u><u>0</u></u>

Note 11 details the assets and liabilities of the Fund attributable to the Partnership and the assumptions made by the Fund's Actuary in estimating the figures included within this note. The note to the Statement of Total Movements in Reserves sets out the implications on the reserves of the Partnership of accounting for pension costs under FRS17.

8. Audit Fees

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice in 2006/07 amounted to £7,459.

No other fees were payable in respect of any other services provided by the appointed auditor in 2006/07.

9. Financial Reporting and the Euro

- 1) There are no commitments as at 31 March 2007 in respect of costs to be incurred.
- 2) The Partnership uses a Financial Information System which is euro compliant. The cost of being euro compliant is included within the overall cost of the service and it is therefore not possible to separately identify this cost. No further expenditure is anticipated.
- 3) No expenditure regarded as exceptional in accordance with FRS3 was incurred in the year.

10. Lease Commitments

At 31 March 2007 the Partnership was committed to making payments of £9,375 under operating leases in 2007/08 as follows:

Land and Buildings	£
Leases expiring in 2009/10	<u>9,375</u>
	<u><u>9,375</u></u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

11. Retirement Benefits FRS 17

The Accounting Code of Practice requires information to be provided in the notes to the accounts on the assets and liabilities arising from the retirement benefit obligations of the Partnership as defined under Financial Reporting Standard 17 (FRS 17) "Retirement Benefits".

The Partnership participates in the Local Government Pension Scheme which is administered by Highland Council. The scheme provides members with defined benefits related to pay and service.

The latest formal valuation of the Fund was as at 31 March 2006 with the next being due as at 31 March 2008. An actuarial valuation as at 31 March 2007 was carried out by Hymans Robertson the independent actuaries to the Partnership. The main assumptions used in the calculations are as follows:

Actuaries' assumptions	Per annum 2006/07
Price increases	3.2%
Salary increases	4.7%
Pension increases	3.2%
Discount rates	5.4%

The inflation assumption has been derived by considering the difference in gross redemption yields of traditional and index-linked gilt-edged securities as at 31 March 2007. Salary increases are assumed to be 1.5% more than price increases, in line with the assumption used in the latest formal valuation of the Fund.

The discount rate employed for 2006/07 is the yield available on long-dated high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) at 31 March 2007 as required by the SORP.

The actuaries' assessment of the assets and liabilities of the Fund attributable to the Partnership as at 31 March 2007 is set out below. The estimates have been prepared in accordance with guidance on accounting for retirement benefits under FRS17 issued by the Institute and Faculty of Actuaries.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

	Asset value	Expected rate of return
	31/03/07	31/03/07
	£000	%
Equity investments	20	7.8%
Bonds	5	4.9%
Property	4	5.8%
Cash	<u>1</u>	4.9%
Estimated employer assets	30	7.1%
Present value of scheme liabilities	(49)	
Present value of unfunded liabilities	0	
Net pensions liability	<u><u>(19)</u></u>	

	2006/07
	£000
Net pensions liability as at 17 April	(20)
Movements in the year:	
Current service cost	(6)
Employer contributions	6
Contributions in respect of unfunded benefits	0
Net return on assets	0
Actuarial gains	1
Net pensions liability as at 31 March	<u><u>(19)</u></u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

12. Reconciliation of net cash outflow from revenue activities

	2006/07	
	£000	£000
Surplus/deficit on revenue account		-
Non revenue items		
Interest on revenue balances		(8)
Items on an accruals basis		
Increase in debtors	(654)	
Increase in creditors	399	
	<u>399</u>	(255)
Net cash outflow from revenue activities		<u><u>(263)</u></u>

13. Reconciliation of movement in cash to the movement in net debt

	2006/07
	£000
Temporary advance from Loans Fund	
As at 1 April 2006	0
Net increase/(decrease) in cash	<u>(255)</u>
As at 31 March 2007	<u><u>(255)</u></u>

14. Statement of Requisitions at 31 March 2007

Constituent Authority	2006-07		
	Budget requisition £000	Actual requisition £000	Balance due £000
Highland Council	63	63	0
Moray Council	45	45	0
Argyll and Bute Council	37	37	0
Comhairle Nan Eilean Siar	28	28	0
Orkney Islands Council	27	27	0
Total	200	200	0

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

15. Date of signing of annual accounts and post balance sheet events

The Treasurer, being the officer responsible for the financial affairs of the Partnership, signed the Statement of Accounts on 25 June 2007. Events after the date of the Balance Sheet (31 March 2007) up to the date of signing have been considered in the preparation of the 2006/07 Statement of Accounts.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

Responsibilities of the Partnership

The Partnership is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Highlands and Islands Transport Partnership that officer is the Treasurer to the Partnership.
- to manage its affairs, to secure economic, efficient and effective use of resources and safeguard its assets.

Responsibilities of the Treasurer

The Treasurer is responsible for the preparation of the Partnership's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this statement of accounts, the Treasurer has:

- ◆ selected suitable accounting policies and then applied them consistently;
- ◆ made judgements and estimates that were reasonable and prudent;
- ◆ complied with the local authority SORP.

The Treasurer has also:-

- ◆ kept proper accounting records which were up to date; and
- ◆ taken reasonable steps for the prevention and detection of fraud and other irregularities.

I, Alan Geddes, Treasurer to the Partnership, state that the Statement of Accounts for the year ended 31 March 2007 presents fairly the financial position of the authority at that date and its income and expenditure for the year then ended.

A Geddes CPFA
Treasurer

31 August 2007

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for the Highlands and Islands Transport Partnership. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:

- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance
- the preparation of regular financial reports which indicate actual expenditure against the forecasts

The Treasurer to the Partnership has overall responsibility for Internal Audit in the Highlands and Islands Transport Partnership. The Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance, regular reports are made to the Partnership. The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Transport Partnership
- the work of the internal auditors as described above, and
- the external auditors in their annual audit letter and other reports.

Prior to the commencement of the Partnership, almost all major financial systems utilised by the Partnership, as provided by Highland Council, have been the subject of change. Reviews of these systems, undertaken as part of the Council's audit, indicate that significant improvements have now been made to many aspects of these systems.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

It is my opinion, based on the above information, that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system in the year to 31 March 2007.

A Geddes CPFA
Treasurer
31 August 2007

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Highlands and Islands Transport Partnership and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Highlands and Islands Transport Partnership for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the Joint Board's Balances, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements present fairly the financial position of the Joint Board in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Joint Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects the Joint Board's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the Joint Board's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
Statement of Accounts for the year ended 31 March 2007

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Treasurer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Joint Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the Joint Board as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Robert W Clark FCCA, Senior Audit Manager
Audit Scotland – Audit Services
Ballantyne House, 84 Academy Street
Inverness, IV1 1LU

31 August 2007